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Third Sector Research Centre

Working Paper 49

The ambitions and challenges of SROI

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The ambitions and challenges of SROI

Abstract

With the growing interest in measuring the social impact of third sector activities, there have been a range of approaches developed. One of these, social return on investment (SROI) has received particular attention and is being promoted by third sector organisations, as well as public and private bodies. This paper examines this approach in detail and identifies a series of issues that require further investigation. These include technical and methodological issues related to this adjusted cost-benefit analysis such as quantifying the value of social benefits, and attribution; the judgement involved in setting indicators; whether projects deemed successful based on an SROI analysis can provide the basis for replicability and scaling up; and the ways in which SROI is being used by stakeholders. Through examining these challenges in detail, the approaches to measuring social impact can be strengthened, standardised and made more rigorous. While the issues raised here are essential to developing SROI further, they are also valid for more general discussions regarding the proving and improving of the value added by the UK third sector.

Keywords

Third sector, SROI (social return on investment), cost-benefit analysis, social impact, created value.

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1. Introduction

As the third sector aims to demonstrate the achievements and impact of organisational activities, there is growing interest in developing tools that can support them, and others, in doing so. Various approaches have been developed that aim to measure and assess outcomes of interventions of third sector organisations, taking on the challenge of finding appropriate ways of capturing economic, environmental and social impacts.

It is often important in appraising collective projects to distinguish between the private returns to an intervention, and the wider social returns (or 'externalities') that may accrue. Writers within economics have, on occasion, used the concept of a 'social return on investment' as potentially differing from the private return. However, what we discuss here is the concept of measuring effectiveness using a series of prescribed steps, which have become known as social return on investment (SROI). This approach is particularly associated with the development work of the Roberts Enterprise Development Fund in the US, and the influence of the New Economics Foundation in the UK.

This paper examines the position and origins of SROI before identifying some emerging challenges. In the final section we draw out implications for those using impact tools and those interpreting the results of SROI exercises. We also identify a future research agenda that can strengthen the method.

By their very nature, it is hard to measure social and environmental value, with the danger that such important benefits become subordinated to economic indicators that can claim greater rigour in terms of data quality. In response to such challenges approaches are being developed for measuring value other than financial, including the Global Reporting Initiative guidelines (GRI), social impact for local economies (SIMPLE), different types of social accounting and auditing and social return on investment (SROI). Often such approaches share an understanding of impact assessment as being both a means to demonstrate achievements and to help improve organisational operations; they try to explore how social change is achieved, and how change can be demonstrated and illustrated with the purpose of proving that value has been created. Among these, SROI has received much attention due to a combination of its ambitious and sometimes controversial approach; it claims to be holistic and comprehensive, and it uses a monetised language, combined with qualitative narratives, to express the different types of value created.

There are a range of approaches to SROI but for the basis of this paper we use *A guide to social return on investment* (Nicholls et al., 2009) published by the Cabinet Office, Office for the Third Sector (hereafter referred to as 'the Guide'). It is worth noting that SROI is still at an evolutionary stage, and developing ways of addressing its perceived limitations. The purpose of this paper is to outline the ambitions and challenges of SROI, and to provide some pointers to key research areas that can support further understanding of theoretical and methodological underpinnings of this framework for impact measurement, as well as the way it is being used by different stakeholders.

The use and experiences of SROI in the UK has so far been limited, which is also reflected in the limited research done on the use of SROI in the UK context (or, indeed, in any other context). A

standard academic database – the Social Sciences Citation Index – reveals less than half a dozen examples published in leading academic journals, all of them recent and with very few citations. The usage of SROI has, of course, been much more extensive than this implies, but conducted in a context of charities and think-tanks and policy commentary rather than pure academic research. A credible measurement tool needs both practice-based and academic scrutiny. There is therefore a need to examine how SROI is being used by third sector organisations, commissioners, funders and the public sector and the role of the academic community is to work to understand how impact assessments are framed, data collected and analysed, and most importantly on how the results are used.

1.1 Measuring outcomes

The impetus to develop tools and frameworks with a focus on outcomes¹ and impact of third sector activities has different sources. Since the late 1990s UK government policy has steered towards an *outcomes* focus in assessment of public services. Recent research related to public service provision in the care for elderly, for example, places an outcomes focus at the core for ‘more efficient and effective commissioning and procurement of services, placing the issues of quality and value for money at the heart of the decision-making process’ (Netten et al., 2010). With the third sector increasingly becoming involved in delivering public services and thus being a government partner, this outcomes-agenda is influencing the way in which work of third sector organisations is assessed.

Similarly, the focus on outcome and impact, along with the concept of ‘value for money’, is growing within philanthropic giving. Previously, giving involved a more relaxed attitude towards charitable impact assessment but this has now changed for a view that philanthropic investment should be based on well-informed choice to ascertain that any gift will make a difference (see e.g. <http://www.philanthropyuk.org> and Leat, 2006).

Apart from influence and pressure coming from the public sector and philanthropic funders there is a push from within the third sector itself for organisations to become better at demonstrating their value to the public and potential funders. An outcomes-based focus is promoted as a means to not only prove what has been achieved to outside stakeholders and thereby strengthen formal accountability, but also as a way of improving organisations and strengthening the sector. It is against this background that we can appreciate the timely launching by Office for the Third Sector of the Measuring Social Value project in 2008, aiming to develop SROI² with the view to highlight and strengthen social and environmental values contributed by third sector organisations.

2. What is SROI?

SROI is defined as ‘a form of adjusted cost–benefit analysis that takes into account, in a more holistic way, the various types of impact’ that programmes have (Lawlor, 2009). From a technical point of view, we argue there is not much difference between classical cost–benefit analysis (CBA) and SROI.³ As the traditional CBA, SROI combines, in the form of a cash flow, the ratio of discounted costs and benefits over a certain period of time.

2.1 Cost–benefit analysis

CBA is a form of economic analysis in which costs and benefits are quantified and compared. CBA is often used by governments or organisations to evaluate the desirability of a given intervention. Having conducted a CBA, generally a project should proceed only if total benefits outweigh total costs. Consider, for instance, the following hypothetical scenario where a charity provides mentoring support to ex-offenders in its offices. This may yield benefits to the clients served, in terms of gaining personal skills that may lead to lower rates of re-offending and higher levels of paid employment. However, it is also possible there may be negative effects if local residents perceive that the location of the project affects the desirability of living nearby. CBA will sum up all the benefits and costs in order to determine whether the new project will be positive or negative for local residents. In practice since costs are often upfront whilst benefits are achieved over time, it will be necessary to *discount* the value of future benefits and costs to arrive at a figure expressed in current terms.

CBA generally requires that all costs and benefits (whether tangible or intangible) be expressed in monetary units. ‘Tangible’ means that costs and benefits are capable of being easily expressed in financial terms, such as the price of land and buildings or income from services provided. The intangible cost and benefits usually refer to the positive (benefits) or negative (costs) externalities that such interventions generate. The measurement of intangibles often creates the most difficulty and controversy for CBA. For example a gain in well-being and confidence is one such intangible benefit (a positive externality) that is difficult to measure; it is not easy to determine the value of gains in self-esteem due to a new project. There is also a possible negative externality, in terms of some residents perceiving this project as negatively affecting the desirability of living locally.

A number of sophisticated techniques have been developed to measure such intangible costs and benefits (Layard and Glaister, 1994). One such technique estimates benefits based on how much an individual is willing to pay to use or to accept having a project of this kind locally. Another technique is a subsidy offered to individuals to live with this local project, rather than without it. A third technique, for some interventions, involves the measure of intrinsic value. One approach to looking at the effects of local projects would be to examine values using ‘revealed preferences’, such as the effect on local house prices.

For some interventions which affect health and life expectancy, clearly there are strong intuitive feelings *against* equating lives saved with a monetary value. Nevertheless this is still required within public policy – for instance the work of NICE in approving the use of medicines.

The ratio of the benefit over the cost (once they are expressed in monetary terms), gives the return on such an intervention. In this respect there is not much difference between classical cost–benefit analysis (CBA) and SROI.⁴ As in the traditional CBA, SROI combines, in the form of a cash flow, the ratio of the tangible and intangible discounted costs and benefits.

Guidance on conducting SROI does put greater emphasis on stakeholders’ involvement than do standard texts on CBAs, but of course the valuation of social benefits involves establishing which are the groups most affected⁵. There still remain the political decisions of what criteria are selected for measurement and whose views are given the greatest weight. Returning to the earlier example, the types of stakeholder involved may affect which criteria are measured and factors such as increased

risk of flooding, traffic congestion, or loss of biodiversity may be included or excluded (H.M. Treasury, 2010).

2.2 SROI

SROI is described as an approach towards identifying and appreciating value created. It involves reviewing the inputs, outputs, outcomes and impacts made and experienced by stakeholders of an organisation in relation to the activities of an organisation, and putting a monetary value on the social, economic and environmental benefits and costs created by an organisation. In order to estimate the positive (or negative) social value of non-traded, non-market goods the use of financial proxies is the main attraction in deciding to use the SROI approach, although organisations have reported other benefits too particularly in terms of planning their activities and developing relationships with stakeholders. The outcome, i.e. the value created, should be related to the investments made, and is expressed through a ratio; an SROI that is 3:1 means that for every pound invested the organisation generates a social value of three pounds (net of cost). Although using monetary terms, the SROI ratio does not express financial value as such, but should be seen as a comprehensive way of expressing the 'currency of social value'. SROI measurement should be matched by qualitative evidence based on stakeholder inquiry, wherein the 'stakeholder' is defined as 'people or organisations that experience change, whether positive or negative, as a result of the activity being analysed' (Nicholls et al., 2009: 20).

The SROI framework is based on important principles such as *stakeholder engagement*, which encourages organisations to communicate with those affected by their work and those who are funding it. The guide to SROI (Nicholls et al., 2009: 9) lists the following seven principles:

- involve stakeholders
- understand what changes
- value the things that matter
- only include what is material
- do not over-claim
- be transparent
- verify the result

This strong emphasis on involving stakeholders is a distinctive feature of SROI. It would be one means of helping to identify the kinds of benefits achieved, using CBA, but it is not part of the CBA 'rulebook'. However, some stakeholders may also be difficult to identify, particularly where some outcomes are not foreseen (unexpected outcomes), and where gains mostly occur in the future.

The exercise of *mapping impact* involves defining outcomes and impacts. Although the SROI does not prescribe specific methods for collecting evidence of outputs and outcomes, the approach is focused on *attributing financial value* to inputs and outputs, leading to the final process of *calculating* the SROI ratio. As the ratio is a succinct and powerful way of communicating value and achievements, it naturally tends to receive the greatest 'headline' coverage. The SROI Guide emphasises that the ratio should not be seen as the only reason for going through such an assessment. However, arriving

at an SROI ratio remains the distinctive feature of the SROI approach, perhaps to the exclusion of other information (Lyon et al., 2010).

2.3 SROI and CBA compared

To what extent can we say that SROI and CBA are different techniques, or whether one is an adaptation of the other? There seems to be some controversy on this point. Cost-benefit analysis is a long-established technique that is routinely used by economists, and others, in a very wide range of fields, in different countries. There are possibly thousands of published accounts that have appeared in the academic literature, in addition to a much larger volume of Government analyses that may remain unpublished. By contrast, the technique of SROI is much more recent, and has its focus on the operations of third sector organisations,

At present, it seems to us that the differences are largely in the *style* of each approach, rather than the true substance. To characterise some of the differences in approach in practice, it seems clear that there are differences in a number of areas:

- a. **Stakeholders.** Whilst CBA mentions the importance of an 'Analysis of who is affected by a proposal, undertaken as part of the appraisal, may be very useful in determining who should be consulted' (H.M. Treasury, 2010), there is a very strong **explicit** emphasis on stakeholders within SROI and the types of involvement they can have. Consultation with stakeholders and their importance is one of the strongest features of conducting an SROI. It appears within CBA, but is given less emphasis. This difference may reflect differences in working within the third sector more generally.
- b. **Management tool.** SROI is presented as one way that an organisation may learn, and use SROI to direct resources to areas with the greatest impact. CBA is more likely to be conducted by external agents who report on the efficacy of particular proposals or interventions. Again, this is not a difference that is inherent to the techniques themselves.
- c. **Comparability.** Recent SROI guidance does not recommend comparing SROI ratios across different activities, whereas CBA is designed to be comparable in such a way. The emphasis on stakeholder involvement results in diverse sets of indicators and therefore difficulties in comparing like with like. However, as shown below, the guidance on the dangers of comparability of SROI ratios used on their own is not always taken.
- d. **Proxies and underlying rationales.** SROI practitioners have developed 'banks' of proxy information to inform the valuation of intangible benefits, or other benefits that are hard to value (<http://www.sroiproject.org.uk/sroi-database.aspx> - sourced October 6). So, for example, it is estimated that the extra tax revenue of moving someone to work is around £1,700 (see the Annex). A cost-benefit analysis uses the underlying tools of economics to help understand the principles behind such valuations. Even so, the Green Book does publish some more standardised estimates of benefits – such as the value of a life saved from a road death representing around £1.1 million in benefit (again, see the Annex). Again, this is more of a practical than an inherent difference between the two approaches.

3. Ambitions and expectations of SROI

An SROI process ideally promotes better communication and engagement between different stakeholders (clients, third sector organisations internally, and patrons of different kinds), leading to increased understanding of expectations and what means are required and available to reach envisioned goals. This is also seen as a way of strengthening accountability towards key stakeholders, including beneficiaries and funders. The focus on impact mapping is furthermore seen as a way of clarifying and making transparent the basis of organisational work, such as describing visions and underlying theory-of-change. This is useful for the management and improvement within an organisation as well as for management of relations and expectations between stakeholders.

Furthermore, the SROI guidelines (Nicholls et al., 2009; NPC, 2010) address several critical issues for assessing impact and making an SROI credible. These issues relate to the fact that the envisioned impact relies on a complex set of variables that are not easily controlled or contained within a project; the nature of this complexity refers to the way, for example, that health, individual history and socio-cultural setting interacts in both causing and solving socio-economic problems at individual and community levels. How can an organisation know that a positive outcome for a client group is due to the specific intervention the organisation has provided? The evaluative process promoted by SROI includes making organisations aware of the careful judgements involved in any kind of assessment of social and environmental impacts.

In sum, the introduction of SROI on a wide scale within the third sector is expected to encourage the development of various important aspects of impact assessment, such as transparency, accountability, communication and understanding across stakeholder groups. Through emphasising the difficulties of determining what impact can be attributed to a specific project, it promotes an awareness of the challenges involved in evidencing impact. It is also expected to promote improvement of quality of data that can be used as evidence for impact assessment. These expectations are accompanied by guidelines that refer not only to the technical aspects – how to carry out an SROI – but also to how to use the SROI as the basis for educating stakeholders in what third sector organisations achieve (Nicholls et al., 2009; NPC, 2010). In order for a comprehensive and credible SROI assessment to take place, organisations will need access to evidence based on both quantitative and qualitative data, some of which is quantifiable and some of which is not. As New Philanthropy Capital (NPC) (2010) frequently points out, there is considerable lack of evidence within the third sector as a whole, and organisations often lack data required for a comprehensive SROI.

4. Challenges and limitations

As with any framework or tool for evaluation and impact assessment SROI has its limitations. Some of these are related to the context in which it is being introduced, others relate to challenges that are inherent to any assessment of social impact, and the way SROI has chosen to address these challenges. We discuss some of the main challenges below with the view to encouraging more rigour in research, helping readers interpret SROI reports and identify areas that would warrant further research. We conclude with reflections on what the implications of these limitations may be.

4.1 The need for evidence and monitoring systems.

One of the clearest messages from adopting an SROI approach is that charities will need good monitoring systems. According to NPC (2010: 1), 'SROI will not reach its full potential until there is more investment in improving the evidence base of the sector'. Therefore the approach, like other forms of impact measurement, is limited where there is a lack of existing quantitative data or a lack of resources to collect data.

4.2 Judgement and discretion in setting the indicators

The mapping of impact involves defining outcomes and expected impact of a project intervention. Whereas identifying outputs may be a straightforward exercise (e.g. activities such as training provided), the definition of impact indicators implies some careful judgement; the choice of indicators is underpinned by a theory of change that holds assumptions and preferences for how impact, or change, can be achieved. Hence, identifying indicators is based on choice and, like in all impact measurement, there can be diverse views on preferences within an organisation, with different stakeholders emphasising the importance of different activities of different groups of beneficiaries. There is also a degree of judgement, based on assumptions regarding the sustainability of an impact, and concerning the periods over which benefits are measured. Not only are decisions shaped by theoretical assumptions and preferences, but they may also be shaped by the cost of the SROI and the extent to which there is data already available to support the measurement of certain indicators. Impact assessments therefore have to be seen as a social construct with information provided about what was included or excluded.

These challenges are not exclusive to SROI. Discretion and transparency are contentious issues in *for-profit* organisations, where there is presumably an incentive to hide information from competitors. However we know little about what drives the 'social construction' of information in third sector organisations. The risks with judgement and discretion leading to organisations hiding information or to biases in the way indicators are chosen and prioritised are ideally counteracted by the SROI model, providing organisations adhere to the SROI guidelines. This counteraction appears to a great extent to be based on stakeholder involvement, but it is not clear how information asymmetries among different stakeholders play out (Burger and Owens, 2010): does it provide a sound basis for transparency and confidence in reporting? Although it is not a challenge exclusively faced by the SROI model, it remains a significant issue since it is not clear how SROI has managed to take it on.

4.3 Focus on impact at the expense of understanding process

SROI is claimed to tell a 'compelling story of change' through 'a mix of narrative, qualitative and financial measures' (Nicholls et al., 2009). SROI attempts to highlight the relationships between inputs, outputs and outcome/impact but in the reporting of SROI results this is often a secondary element behind the strong emphasis on the overall SROI ratio (Lyon et al. 2010). For those SROI reports that do emphasise the processes behind any changes, they still have no control over how readers of the report will interpret the results and quote selectively. There may be significant differences between the theory of SROI and what it may deliver, and the practice of SROI 'on the ground' (Lyon et al. 2010):

while the model encourages transparency and the inclusion of detailed narratives from for example beneficiaries, recent research suggests that organisations are hesitant in highlighting such information. The rationale behind this is that detailed information, that displays the complexity of change, invites for critical questions and uncertainties among commissioners and funders (Lyon et al. 2010).

It is possible that the expected compelling story of change provided by SROI is hampered by a degree of censorship. But the story of change is furthermore questioned by Ryan and Lyne (2008) who found that the theory-of-change, as framed in many SROI studies, pays less attention to how value is created and hence does not contribute to an understanding of the 'drivers and functioning' of third sector activities. So, while SROI may help in providing evidence and estimates of impact, on its own, it currently provides a weak basis for understanding how and why impacts occur. SROI contributes to how we can appreciate impact (*prove*), but more research is needed in how it can be used to understand change and thereby *improve* or *replicate* interventions. For example, a nursery may have raised attainment for children and opportunities for parents but this could be attributed to the quality of the staff, the indoor and outdoor facilities, or the support provided to parents. Relying primarily on SROI as the basis for replicability and scaling up of project interventions provides us with a weak and insufficient instrument since it does not say enough about the underlying mechanisms and existing principals and (moral and financial) values that have contributed to the outcomes. Similarly, financial accounting is not designed for explaining underlying mechanisms. On the one hand SROI should not be criticised for ignoring these issues, but on the other hand, a high ratio or payback time from an SROI analysis is often taken as a signal that the activity should be replicated

4.4 Competing principles and goals?

There has been a focus on collecting data on quantitative measures which presents a risk of affecting what actual activities are being carried out. There is a need for research that examines the extent to which the maxim 'if it cannot be measured it cannot be managed' is permeating the third sector. There may be many less tangible benefits that cannot be so easily recorded or reported. For example, encouraging community participation can be identified as a good in itself, but the value of participation cannot be claimed unless it leads to results such as individual empowerment and independence. By involving stakeholders it should become easier to identify what these kinds of benefits might be.

It is also conceivable that the mission of an organisation drifts to cover those goals that are more easily quantified. Mission drift can also suggest a 'deeper problem of lack of transparency and weak performance management' (Copestake, 2007: 1722). In practice this would mean that staff under-perform according to organisational principles while they are on target for project goals, and that these changes in organisational goals and staff behaviour have come about through 'a hidden change in preferences' (Copestake, 2007: 1725) rather than being part of a strategic change, which would not be clear to the stakeholders involved.

4.5 Quantifying the value of benefits

There are obvious challenges in attributing monetary values on outcomes and impacts. Some within the third sector are uncomfortable with summing a range of social values into a single financial value.

Such quantification, it is believed, has to distil the impact and can do little to recognise outcomes that refer to feelings and other similar type of outcomes that are vague to identify and quantify but nevertheless are essential goals of a project intervention. It is however not only outcomes that present a challenge to quantification: it is also difficult to put an appropriate value on inputs such as volunteering which is further discussed below.

The focus of SROI is in expressing social benefits in monetary terms. To achieve this goal it frequently uses public spending figures as proxies for positive social change. And, potentially that might include any negative consequences, too. These financial proxies are an attempt to express in monetary terms positive externalities of various activities. This SROI approach presents two types of challenges. First it does not capture the social value in terms of improvement of personal utility (i.e. quality of life). Second, as is acknowledged in the guide (but which might still cause confusion to some readers of evaluations), most of the time these figures will not result in actual financial savings. For instance, in the SROI Guide, the sum £4,964 is claimed as a benefit for every geriatric assessment not requested (Nicholls et al., 2009: 103). This figure comes from the NHS cost book 07/08 and it reflects the *average* total cost of that specific intervention. The knowledge of the cost of such an intervention cannot be translated into £4,964 saving for the NHS. Savings for the NHS, especially in the short term (five years), may only be related to the variable costs (or the marginal costs) as it is rarely logistically or politically feasible to reduce fixed costs. Usually in the NHS the variable costs of such an intervention (drugs, diagnostic check, travel) are much lower than the fixed costs (which include doctor's salary, capital depreciation). Hence, if we want to focus on saving this should be estimated at a much lower value – reflecting more closely the actual saving.

The average cost of a specific intervention that is usually free at the point of use may not reflect what economists call 'the shadow price' of that intervention or the intrinsic value. In other words the average price of such an intervention (free at the point of use) does not reflect the real 'willingness to pay' of the beneficiaries, which may be higher or lower than the average cost. Hence, the benefits estimated should not only take into account savings (i.e. value from society's point of view) but also the value of the intervention from the beneficiary's point of view – a principle that is covered in the guide. For instance assume that a specific activity of a TSO is able to eliminate the probability of suffering from depression and also assume that the NHS will treat everybody at an average cost of £1,000 during the first year. SROI will assume that the social value of avoiding someone experiencing depression is £1,000 in the first year. This average cost does not represent the intrinsic value for that person of avoiding depression. The intrinsic value of avoiding depression is based on an underlying perception of its true value including all aspects of depression, in terms of tangible and intangible factors. On the other hand the NHS not treating that depression would not result in £1,000-worth of savings in the first year. This is because the NHS has a lot of fixed costs. The average cost may be interpreted as the willingness to pay (in the long term) for the society by providing this kind of treatment free at the point of use.

Only in the long term (usually more than five years) may we assume that the NHS, once it has realised that there are fewer people suffering from depression, has an opportunity to allocate their

resources in a different way, achieving a higher saving. Controversially, the SROI is usually calculated over a short-term period – of one to five years.

Finally, there are well-established debates about the process of putting a price on intrinsic values with, for example, a tradition of research on assessing ‘willingness to pay’ or contingent valuation, which makes assumptions that people can put a financial value on intangibles factors (Beckerman and Pasek, 2001; Broome, 1994). Although there are controversies regarding the usefulness of a cost–benefit approach to assessing intangible values, proponents suggest that it is important to quantify despite these limitations as an economic value is able to have more influence over policy and commercial interests.

4.6 Valuing inputs: putting a price on volunteering

There are similar challenges in terms of quantifying inputs where volunteers are involved. According to the SROI Guide, ‘The hours given by volunteers are often given a value equivalent to the typical hourly rate for the type of work they are doing. This value is given regardless of whether any money is paid to the volunteer’(Nicholls et al., 2009: 31–2). As an alternative SROI suggests comparing wages that volunteers would earn in the market for paid labour.

Many third sector organisations (TSOs) are distinctive in receiving a large donation of unpaid labour (volunteering) and often paid staff and volunteers work together. This is not unique to the sector, as volunteering is also common in the statutory sector (schools, hospitals) and occurs within the private sector (e.g. perhaps controversially, as interns). The question of how to value volunteering in SROI is debated, and valuing volunteering is problematic both conceptually and practically. While the value produced by paid labour is *generally* measured by the wage that is paid, this metric is unavailable for measuring the value of volunteering. Furthermore, goods and services produced by volunteers are not commonly sold on the market and so their (i.e. volunteers’) value is not easily quantified. The key issue here is that SROI does not seem to capture either the opportunity cost of volunteering or the consequential opportunity cost for the volunteer. The key issue is whether, at the margin, volunteering is replacing hours of work or hours of leisure for the individual. This issue is not addressed in a transparent way by SROI analyses. The opportunity cost of doing more hours as a volunteer, instead of paid work, may be higher than the cost of those who replace leisure with volunteering. Clearly it is difficult to estimate which situation is the more relevant. The framework of CBA, and its derivation within economics, at least provides a strong framework within which to construct answers to these questions.

For many TSOs volunteers are an important resource, but although volunteers are unpaid they are not free. They may not have the same hourly productivity of paid staff. In using volunteers organisations are likely to incur spending on recruitment, training and management. The presence of volunteers may also jeopardise the motivation of paid staff (Brudney, 1993). Furthermore, in not having a paid contractual obligation volunteers may be more difficult to manage effectively. This is not to imply that the net effect is negative, only that realistic appraisal should not treat volunteers as a free resource. Organisations may not wish to accept all the offers of volunteers that they receive, as there is an opportunity cost for organisations (as well as to individuals) of having volunteers. There may also

be differences between the skills offered by the volunteers, and those required by the organisation, or in the hours and times that they are available.

4.7 Deadweight, displacement and attribution

Where change is caused by a range of factors including the activities of the organisation being evaluated, it can be very difficult to know the amount of the benefit that can be attributed to the activity being measured. For example with programmes aiming to support unemployed people, it is very difficult to distinguish the impact of a specific programme from that of other third sector organisations, the public sector, or changes in the wider economy resulting in reduced or increased opportunities for employment.⁶

Analysts often work with the concepts of 'deadweight costs', displacement (or substitution) and drop-off. The deadweight cost measures what might have happened without the programme. For instance, if, say, 50 per cent of young unemployed people move into work following a mentoring programme, it is possible that 30 per cent might have found jobs in the absence of that programme. The situation that would have happened without the programme is sometimes called the 'counterfactual' – and represents deadweight. However, it is still possible for a programme to deliver positive benefits even if deadweight seems relatively high. The process of estimating deadweight is what attribution is all about.

A programme may be subject to 'displacement' if the programme group benefits at the expense of other groups. For example, a group helped into work by an intervention might deny jobs to others, outside of the programme, who might otherwise have taken those jobs.⁷ The concept of 'drop-off' implies that the results of programmes may not be maintained over time. In the early days of an intervention, there may be higher levels of staff (and participant) enthusiasm, and this may diminish over time. Conversely, benefits may increase over time if staff pick up improved skills in their roles. There are challenges for SROI users to capture this.

4.8 Using and reporting SROI results: ambiguities and temptations

While comparisons of SROI ratios within the same organisation, over time, may be useful for tracking progress (or otherwise), the SROI Guide warns that 'comparison of social return ratios [between organisations] are unlikely to be helpful' (Nicholls et al., 2009: 77). The SROI ratio, and the way by which it has been produced, is specific for each organisation and hence does not lend itself to cross-organisational comparison, particularly when the methods used, and judgements made, have not been identical. This paper shows that there are many points where organisations and those carrying out the SROI exercise have to make important judgements. The Guide points out that organisations, when presenting the SROI results, should educate investors and commissioners in how to make sense of the ratio and accompanying narrative in order to avoid this risk of trying to compare ratios calculated in different ways.

However, in the same document SROI is promoted as a comprehensive basis for decision-making for funders and investors when allocating resources. Such decisions will often be made in a situation of choice between bidding organisations. In the foreword to the Guide it is said⁸ that 'As we face tough economic times, it is now more important than ever that we allow for better recognition of those who

create social and environmental value, leading to more efficient movement of resources to the right people, in the right place, at the right time' (Nicholls et al., 2009: 3). Zappala and Lyons (2009: 16) succinctly interpret this: 'the British government is seeking a way to allocate increasingly scarce resources to those non-profits that supposedly have a greater positive social impact than others'.

While the ratio is presented as one of SROI's strengths, since it provides a consistent and tangible way of illustrating created value in a way that most can understand, this also presents a risk. As indicated in a recent paper published by New Philanthropy Capital 'the most common reason for charities to undertake an SROI is to attract funding' (NPC, 2010: 5). Findings from a recent study looking into social impact measurement in third sector organisations (Lyon et al., 2010), indicates too that the main motivation for organisations to carry out an SROI is to strengthen their position in a competitive environment. There are further challenges related to auditing SROI and ensuring organisations do not inflate values or select indicators to provide a positive narrative of their impact⁹. Other studies, and not referring to SROI in particular (Burger and Owens 2010; Nicholls 2008) suggest that there are reasons for concern regarding objectivity and impartiality in organisational reporting. More research is required in understanding how organisations are using these impact tools, and how they are using the results.

Organisations have little control over how the results of their SROI are used by others, whether these are commissioners, funders or competitors. This may make some organisations reluctant to publicise their results if they are not perceived to demonstrate a high enough ratio. The study by Lyon et al. (2010) indicate that organisations feel exposed, vulnerable and they lack control over how others use the findings of the SROI exercise and other comprehensive evaluation tools. The movement towards having more open data within charities, as well as government, might in time lead to greater pressure to publish the results of evaluations of this kind.

4.9 The high cost of conducting SROI assessments

As forms of evaluation such as SROI become more widely used, proponents look for greater standardisation by ensuring that those carrying out such approaches are fully trained and follow the methodology. Carrying out a comprehensive SROI analysis has considerable cost implications in terms of costs of training and labour required to carry out such specified work (Leighton and Wood, 2010)¹⁰. In larger organisations this may be justified but in smaller ones, this may not be viable without external funding. For example Gordon (2009) found that smaller SROI projects would cost between £12-15,000 each with larger ones rising to £40,000. Lyon et al. (2010) found SROI studies ranging in size from £4,000 to several hundreds of thousands of pounds.

5. Implications of these challenges

The fact that SROI presents aspirations as well as limitations is not unexpected: all evaluation and assessment tools have their limits. Although aiming for rigour, the method used leaves ample room for not only judgement that makes it possible to inflate the value created when there is no assurance system used, but also for misunderstandings regarding how to interpret and use the SROI ratios.

SROI should ideally lead to more efficient use of resources in times of financial constraints. This, however, must be based on an understanding that decisions guided by the SROI ratio cannot be seen as technocratic, but rather, as normatively informed. What is valued, and how, is a matter of choice, and 'success' is not being defined by a neutral instrument.

It is through understanding the context in which SROI is promoted that we can assess the impact of these limitations. The use of SROI contributes to a specific way of defining success. The SROI network aspires to create a standardised way of measuring created value which is based on a set of principles that guides the impact assessment process, and to make this format of impact assessment widely available and used by third sector organisations. Although its use has been limited up until now, SROI has the potential to become a dominating and powerful tool for social impact evaluations among third sector organisations due to its support from different parts of the UK public sector. Despite caveats of using SROI as a comparative tool by those promoting it, it appears that this is precisely the reason that most organisations decide to allocate their limited resources to these expensive exercises (Lyon et al., 2010; NPC, 2010). Third sector organisations are under pressure to demonstrate their value in an environment which emphasises 'value for money' and where competition for resources is characterising their relations to both fellow third sector organisations as well as to stakeholders who provide resources. This context, however, does present an incentive for organisations to inflate the value of their interventions. The extent to which this is happening needs further investigation, and means of reducing such a risk needs to be developed drawing on forms of external auditing that are cost effective.

There are considerable risks to the reputation of the method as it is increasingly used as a comparative tool for organisations operating in a competitive environment for contracts or philanthropic funds. The few detailed studies to look at the perceptions of organisations using the methods in the UK (Lyon et al., 2010) and in the US (Social Edge, 2010) find that it is used to influence those outside the organisation, as a form of marketing or to demonstrate a form of 'business like' legitimacy. The UK study of 32 cases of social impact measurement, eight of which were using SROI, found that more than three-quarters had external audiences in mind. Only four of the 32 had internal learning as a primary objective, with a further ten having learning as a secondary objective. This is a small sample that was purposefully selected to cover a range of types of third sector organisations that were measuring their impact in different ways. The findings from this study should hence be seen as indicative rather than representative, but nevertheless they support the importance of looking further into the challenges suggested in this paper.

6. Conclusions: towards a future research agenda

As a framework SROI provides guidelines supporting organisations in defining and clarifying their theory of change, in mapping impact, attributing value to indicators, collecting evidence, and in calculating the SROI ratio. This is praiseworthy, and discussions emanating from reactions and views on SROI address important issues for the sector as a whole; how can and should third sector organisations measure and illustrate their contributions to society? It also offers an opportunity for more strategic thinking about outcomes and a participatory approach towards defining these.

Part of the critique raised in this paper comes not only from a scrutiny of SROI as a tool, but also from the view that SROI aspires to deliver not only fair measurement of social, environmental, and financial value created, but the added value of enlightening and educating organisations and stakeholders alike through stakeholder participation; it is not only a tool, but a project with visions and goals in itself. While this project relies on stakeholder engagement, the SROI guidelines currently provide very little that suggests an understanding of the challenges with stakeholder involvement such as power asymmetries and conflicting interests (Edwards et al., 2010). For example, there is little debate on which stakeholders are involved, whose voices are heard and who is marginalised.

This paper aims to encourage greater rigour and attention to how SROI principles are applied. As a result of this analysis, we propose further research into technical aspects, and methodological aspects that relate to the use of SROI and the dynamics surrounding stakeholder engagement. There is a need to ensure rigour and validation through an auditing system, although this may add greater costs to an approach that many may feel is already expensive. In addition, questions regarding how different stakeholders use the results of the SROI are becoming increasingly pertinent. This includes organisations carrying out the approach as well as stakeholders using SROIs. Furthermore, procedures that aim to standardise (for example within particular sectors) the way SROI is calculated, and the implications of such standardisation, need to be investigated.

There is always the risk that strategies will be shaped by what can be measured easily rather than tackling other less tangible issues. Also, and as mentioned earlier in this paper, we know little about what drives the 'social construction' of information in third sector organisations, and in particular in processes that involve stakeholder involvement. This leads to questions regarding how we define and understand the concepts of transparency and accurate information, and how the assessment process affects the behaviour of managers within organisations and that of commissioners, investors and philanthropists, which calls for qualitative methods of investigation to understand the narratives of change within different types of organisations. In other words, there is a range of questions to look into before we can begin to understand whether the introduction of the SROI model is leading to improved performance by organisations, and whether the vision 'to reduce inequality and environmental degradation and improve wellbeing by incorporating social, environmental and economic costs and benefits' (Nicholls et al. 2009: 8) as expressed in the SROI guidelines has been accomplished.

End notes

- ¹ Outputs are standard deliverable items, whilst outcomes are the effects caused. A job training event is an output; a person finding a job is an outcome.
- ² The project is led by SROI UK Network, supported by New Economics Foundation, New Philanthropy Capital, Charities Evaluation Service and the National Council for Voluntary Organisations.
- ³ For a comprehensive review on CBA see (Layard and Glaister, 1994)
- ⁴ For a comprehensive review on CBA see (Layard and Glaister, 1994)
- ⁵ In more technical terms, CBA may be described in terms of the Social Welfare Function, which is typically the sum of all relevant 'utilities' of the affected individuals and groups (e.g. Fujiwara 2010: 7)
- ⁶ Various research designs, such as experiments and longitudinal approaches, may help to overcome such problems.
- ⁷ This does not imply that the total number of jobs is fixed, although that may be more true in the short term.
- ⁸ Foreword by the then Ministers for the Cabinet Office, Liam Byrne, and the Office for the Third Sector, Kevin Brennan.
- ⁹ There are emerging approaches to developing assurance processes for SROI analyses that will present an interesting research opportunity in the future
- ¹⁰ However, organisations can use some of the underlying principles of SROI in their planning.

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Annex: Examples of the imputed value of intangible benefits

SROI proxies

This financial proxy is for the effect of increasing the taxes paid by those moving from unemployment (JSA) or inactivity (IB) into full-time employment.

Description of Proxy	Description of Outcome	Related Stakeholder	flag
Net increase in annual tax intake from full-time employment for those previously on JSA/IB	Increased tax intake	Benefits Agency, Jobcentre Plus and DWP	
Is this outcome likely to be part of a chain of events? Possibly			
More detail on the context in which this financial proxy was used SROI conducted for Coventry's Local Enterprise and Growth Initiative (LEGI)			
What type of financial proxy is this? Changes to Income			
What is the value of this financial proxy? £1,774 (2008 prices)			
What is the source of this financial proxy? nef estimate			
Any other relevant information I should be aware of in using this financial proxy? Be careful not to double count when considering other outcomes for the state, such as obtaining employment. This proxy can also be used for people who move into self-employment			
Report Source SROI conducted for Coventry's Local Enterprise and Growth Initiative (LEGI) (unpublished)			

Taken from: <http://www.sroiproject.org.uk/sroi-database/proxy-information.aspx?id=1914&from=1630>
accessed 6 October 2010.

CBA estimates from Green Book

These examples relate to deaths and injuries avoided.

31 In the UK, the Department for Transport (DfT) values the reduction of the risk of death in the context of road transport at about £1.145m per fatal casualty prevented (in 2000 prices).¹⁶ In addition to the WTP measures, these estimates include gross lost output, medical and ambulance costs. Values are uprated in line with assumed changes in GDP per head.

32 DfT also attributes monetary values to the prevention of non-fatal casualties, based on a WTP approach. Serious and slight casualties are valued separately and the values are uprated in line with changes in GDP per head. Values currently in use for preventing a serious and slight road injury are £128,650 and £9,920 respectively (at 2000 prices).¹⁷ Costs of police, insurance and property damage are added to these casualty values to obtain values for the prevention of road accidents. The HSE tariff of monetary values for pain, grief and suffering begins at £150 for the most minor non-reportable injury.¹⁸

Taken from: http://www.hm-treasury.gov.uk/d/green_book_complete.pdf, page 62, accessed 6 October 2010.

About the Centre

The third sector provides support and services to millions of people. Whether providing front-line services, making policy or campaigning for change, good quality research is vital for organisations to achieve the best possible impact. The third sector research centre exists to develop the evidence base on, for and with the third sector in the UK. Working closely with practitioners, policy-makers and other academics, TSRC is undertaking and reviewing research, and making this research widely available. The Centre works in collaboration with the third sector, ensuring its research reflects the realities of those working within it, and helping to build the sector's capacity to use and conduct research.

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Economic and Social Impact

Assessing the economic impact of third sector organisations is a key research priority for TSRC. It is linked to our mapping and measuring of the sector, and has a particular focus on the role that third sector organisations play in delivering public services and contributing to general community wellbeing. We are engaged in a review of the wide range of existing methods and tools for measuring impact within TSOs including Social Return on Investment (SROI), blended impact measures and other adaptations of cost/benefit analysis. We will also develop sector wide analysis of economic impact of third sector activity and its contribution to the wider economy, including analysis of workforce trends, volunteering and third sector value.

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